Mbombo Luhembe | What COP28 means for Africa's banks

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COP28 president, Dr Sultan Al Jaber, is pleased with the pledges to the loss and damage fund
Sizwe sama Yende

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The transition to net zero emissions is driving unprecedented levels of change. Apart from significant levels of investment and risk management considerations, lower carbon emissions are providing global opportunities in Africa.

To avoid the worst impacts of climate change, the world is racing to transform how it produces electricity, transports people and freight, develops and manages buildings and infrastructure, manufactures goods, and grows its food.

The investment requirements are enormous. According to the International Energy Agency, annual spending on clean energy and energy efficiency programmes must rise to $4.3 trillion (R80 trillion) by 2030 – more than double today's rate.

For now, Africa attracts only a tiny share of global transition-related investments, but that must change quickly if we are to expand access to electricity, make the continent more economically competitive and tackle the climate crisis – all in a systematic and just way that leaves no one behind. Indeed, for Africa, social considerations are closely tied to environmental ones.

At the COP28 climate conference in Dubai, we hope to see real progress in directing investment towards Africa. A major increase in development finance, philanthropic funding and grants is needed to de-risk projects, crowd in private capital and unleash a catalytic clean energy boom in Africa.

Because of the sheer scale of the funding gap, traditional green finance activities will be insufficient on their own. The continent's financial services industry needs to act as a facilitator of global capital flows to Africa. As such, banks have to build the required capacity to embed net zero frameworks into their business processes, and decision-making to support this transformation.

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Banks will also need to provide decarbonisation or transition finance to corporate and even sovereign clients to help them adopt more sustainable processes. These types of facilities are important for banks too as they seek to align their lending portfolios with their own emission reduction targets.

To support the objectives of the Paris Climate Agreement, an increasing number of banks are committing to reducing their financed emissions – or the emissions linked to their investment and lending activities.

In practice, this is no easy task. The process of setting and then assessing targets for financed emissions is overly complex because of data collection challenges, stark differences between sectors and geographies, and changing industry standards. However, it is an exercise that will benefit the banking industry in the long term.

In a rapidly changing world, carbon accounting and gauging progress on reducing financed emissions is a crucial tool for risk management, decision-making, regulatory compliance, meeting stakeholder expectations and facilitating sustainable development.

This is not simply about ticking regulatory compliance boxes but is an opportunity for banks and other industries to have a positive impact on the environment and communities.

In the same vein, the financial services sector will also need to enhance its sustainability reporting as the focus on climate change intensifies with each annual COP meeting.

Earlier this year, new sustainability-focused international financial reporting standards (IFRS) were released, and the European Commission adopted the European sustainability reporting standards, which require large companies to report on social and environmental impacts and risks.

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Until now, climate reporting has been largely voluntary, however, the publication of these new IFRS standards will accelerate standardisation when adopted by national regulators.

It is clear that emission impacts and environmental, social and governance considerations will increasingly be integrated into all reporting, business decisions and risk analyses.

As an example, a steel manufacturer and its banking partner will understand the need to shift to low-carbon processes to mitigate the risk of the implementation of carbon border taxes in key export markets. Climate policies in one region now reverberate globally.

And it is also evident that there is immense economic value on offer for those countries, banks and companies that embrace the energy transition. In Africa in particular, however, extra care must be taken to ensure that employees and communities reliant on traditional energy sources are not left stranded.

*** Luhembe is the Absa Group head of sustainability analytics**